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# Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-04
H-02 INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01
SP-02 SS-15 USIA-15 AID-05 OMB-01 TRSY-06 EB-08
FRB-01 COM-04 AGR-10 HEW-06 SIL-01 LAB-04 ITC-01
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R 311536Z MAR 77
FM AMEMBASSY PRETORIA
TO SECSTATE WASHDC 7233
INFO AMCONSUL CAPE TOWN
AMCONSUL JOHANNESBURG
AMEMBASSY LONDON
USMISSION GENEVA
AMEMBASSY PARIS
AMCONSUL DURBAN
USMISSION EC BRUSSELS

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CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, SF
SUBJECT: SOUTH AFRICAN BUDGET FOR FY-77/78

SUMMARY: MINISTER OF FINANCE HORWOOD ANNOUNCED A CONSERVATIVE AND MILDLY DEFLATIONARY BUDGET ON MARCH 30. OVERALL GOVERNMENT SPENDING IS ESTIMATED TO RISE BY 7.8 O/O TO R8,785 MILLION ($10,102 MILLION) IN FY-1977/78, A DECLINE IN REAL TERMS WHEN 10-11 O/O INFLATION RATE IS TAKEN INTO ACCOUNT. DEFENSE EXPENDITURES ENCREASED BY 21 O/O TO R1,164 MILLION, SOMEWHAT LESS THAT EXPECTED. OTHER AREAS OF MAJOR INCREASE WHERE WELFARE AND PENSIONS, BLACK EDUCATION (UP 51 O/O), AND BLACK AND COLORED HOUSING. ON REVENUE SIDE, THERE WAS NO INCREASE IN DIRECT TAXES ON PERSONS OR COMPANIES. INSTEAD
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VARIETY OF INDIRECT MEASURES WERE ANNOUNCED INCLUDING 15 O/O SURCHARGE ON MOST IMPORTED GOODS NOT COVERED BY GATT BINDINGS, A CUT IN LEVEL OF FOOD SUBSIDIES, INCREASE IN REQUIRED AMOUNTS OF GOVERNMENT SECURITIES WHICH FINANCIAL INSTITUTIONS MUST HOLD, TAXATION OF AGRICULTURAL COOPERATIVES, AND A UNIQUE DEFENSE BOND PROGRAM INCORPORATED WITH A STATE LOTTERY. OVERALL EFFECT OF NEW MEASURES EXPECTED TY HELP

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BALANCE OF PAYMENTS BUT WEAKEND PROSPECTS FOR ECONOMIC RECOVERY
THIS YEAR. IMPORT SURCHARGE AND CUT IN FOODS SUBSIDIES WILL
PUT FURTHER PRESSURE ON CONSUMER PRICES IN SHORT TERM WHICH
WILL BE FELT BY LOWER INCOME GROUPS INCLUDING BLACKS.
END SUMMARY.

2. FY1977/78 BUDGET ANNOUNCED BY MINISTER OF FINANCE HORWOOD
IN PARLIAMENT MARCH 30 PROVIDES FOR OVERALL EXPENDITURES OF
R8,785 MILLION (R1.00 " $1.15), AN INCREASE OF 7.8 O/O OF FY 76/77,
AND REVENUE OF R7,687 MILLION. DEFICIT OF R1,088 (EXCLUDING
LOANS) WILL BE LARGELY FINANCED THROUGH DOMESTIC BORROWING.
HORWOOD NOTED THAT THE ECONOMY WAS NEAR BOTTOM OF A MAJOR
RECESSION HAVING POSTED ITS LOWEST RATE OF REAL GROWTH (GDP)
SINCE WORLD WAR 11 IN 1976 (1.5O/O). NORMALLY THIS WOULD CALL
FOR AN EXPANSIONARY FISCAL POLICY BUT DECLINE IN NET INFLOWS OF
FOREIGN CAPITAL HAS NEUTRALIZED IMPROVEMENT IN CURRENT ACCOUNT
DEFICIT IN SECOND HALF OF 1976. THEREFORE, SAG HAS NO OPTION BUT
TO CONTINUE GENERALLY RESTRICTIVE FISCAL POLICIES AIMED AT FURTHER
REDUCING CURRENT ACCOUNT DEFICIT AND REBUILDING FOREIGN
EXCHANGE RESERVES, STATED HORWOOD.

3. ON EXPENDITURE SIDE, DEFENSE WAS UP 21 O/O TO R1.654 MILLION.
PENSIONS AND WELFARE WAS UP 17 O/O TO R370 MILLION; NATIONAL
EDUCATION WAS UP 15 O/O TO R303,000; BLACK AND EDUCATION WAS
UP 51 O/O TO R117 MILLION. FIGURE FOR BLACK ADMINISTRATION
SHOWED AN OVERALL DECLINE REFLECTING TRANSFER OF R119
CONTRIBUTING TO TRANSKEI TO FOREIGN AFFAIRS BUDGET. OTERHWISE
INCREASE WOULD HAVE BEEN 16 O/O. BLACK ADMINISTRATION BUDGET
INCLUDED R153 MILLION FOR BLACK AND COLORED HOUSING, A LARGE
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INCREASE OVER RY-76/77 FIGURE. SOCIAL PENSIONS WERE INCREASED
BY R7 PER MONTH FOR WHITES, R4 FOR COLOREDS AND INDIANS AND
R2 FOR BLACKS.

4. NO NEW DIRECT TAXES WERE ANNOUNCED BUT AMONG NEW INDIRECT
MEASURES WAS 15 O/O SURCHARGE ON BROAD RANGE OF IMPORTS. PRESS
ESTIMATES THAT NEW SURCHARGE WILL COVER ABOUT ONE THIRD OF
SOUTH AFRICA'S IMPORTS, PRIMARILY CONSUMER GOODS, BUT ALSO SOME
CAPITAL GOODS. DEPT OF CUSTOMS AND EXCISE CONFIRMED TO
EMBASSY THAT NONE OF PRODUCTS COVERED BY SOUTH AFRICA'S
BINDINGS UNDER GATT WILL BE SUBJECT TO SURCHARGE. SURCHARGE
WILL BE 15 O/O OF DUTIABLE VALUE (NORMALLY FOB) OF GOODS. SURCHARGE
EXPECTED TO EARN R400 MILLION IN FY 77/78.

5. OTHER REVENUE MEASURES WERE (A) REQUIREMENT THAT FINANCIAL
INSTITUTIONS INVEST INCREASED AMOUNTS OF CAPITAL IN GOVERNMENT
SECURITIES WITH OVERALL R750 MILLION EXPECTED TO BE RAISED
FROM THIS SOURCE. THIS WILL HAVE ADVERSE IMPACT ON
ALREADY DEPRESSED STOCK MARKET PRICES AS FINANCIAL

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INSTITUTIONS WILL HAVE LESS FUNDS AVAILABLE FOR EQUITY
INVESTMENT; (B) CUT IN AGRICULTURAL SUBSIDIES FROM R199.
MILLION TO R150. THESE CUTS WILL BE REFLECTED IN SOMEWHAT
HIGHER CONSUMER PRICES FOR BREAD, MAISE AND BUTTER.

(C) AGRICULTURAL COOPERATIVES WILL BE TAXED ON THEIR
PROFITS ALTHOUGH SOME SPECIAL ADVANTAGES WOULD
BE RETAINED; (B) SPECIAL 9.5 O/O INTEREST DEFENSE BONDS WILL
BE OFFERED OF WHICH 2.5 O/O WILL GO INTO A FUND FOR A LOTTERY
AMONG BOND HOLDERS. THIS RATHER UNIQUE REVENUE DEVINCE IS
ESTIMATED TO RAISE R160 MILLION BY THE SAG; (E) CURRENT
SALES TAX ON MOST CONSUMER GOODS APPLIED ON MANUFACTURERS
SELLING PRICE TO WHOLESALER WILL BE CHANGED TO A STRAIGHT
RETAIL SALES TAX ADDED TO RETAIL PRICE. THIS IS NOT EXPECTED
TO BE IN EFFECT BEFORE FY 1978/79. (F) ANNUAL COMPANY DUTY IS
INCREASED FROM R2.50 TOR4.00 PER 10,000 AND STAMP DUTIES ARE
INCREASED SLIGHTLY. NEITHER REPRESENT MAJOR NEW LEVIES.
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6. COMMENT: FY77/78 BUDGET IS BASICALLY CONSERVATIVE DOCUMENT REFLECT
ING
PRIORITY SAG IS GIVING TO BALANCE OF PAYMENTS AT EXPENSE OF REFLATING
ECONOMY. INSPITE OF NECESSITY FOR SAG TO FINANCE HIGHER PERCENTAGE OF
CAPITAL AND CURRENT EXPENDITURES OUT OF CURRENT INCOME, DRACONIAN
MEASURES WERE AVOIDED. IT WILL HOWEVER SOME PRESSURE ON CONSUMER
PRICES AND REAL INCOMES.BOWDLER

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# Message Attributes

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**Disposition Approved on Date:**
**Disposition Case Number:** n/a
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**Status:** NATIVE
**Subject:** SOUTH AFRICAN BUDGET FOR FY-77/78 SUMMARY: MINISTER OF FINANCE HORWOOD ANNOUNCED A CONSERVATIVE AND MILDLY DEFLATIONARY BUDGET ON MARCH 30. OVERAL
**TAGS:** EFIN, SF
**To:** STATE
**Type:** TE
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